

SILICON GRAPHICS INC
Form PRE 14A
October 17, 2003

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SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

Silicon Graphics, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required
 - Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11
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- o Fee paid previously with preliminary materials.
- o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

October 27, 2003

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of Silicon Graphics, Inc. to be held on December 2, 2003 at 2:00 p.m. in the Ballroom of the Hyatt Ricketts, 4219 El Camino Real, Palo Alto, California.

The Notice of Annual Meeting and Proxy Statement that accompany this letter provide an outline of the business to be conducted at the meeting. In addition to the matters to be voted on, there will be a report on the progress of the Company and an opportunity for stockholders to ask questions.

We hope you will be able to join us. To ensure your representation at the meeting, we urge you to vote your shares as soon as possible. The proxy card includes instructions on how to vote on the Internet, by telephone or by returning your proxy card. Your vote is very important.

We encourage you to receive future annual reports and proxy statements from SGI electronically. This will help us save costs in producing and distributing these materials. If you wish to receive our annual report and proxy statement electronically next year, please follow the instructions on the enclosed proxy card.

Sincerely,

ROBERT R. BISHOP
Chairman and Chief Executive Officer
Silicon Graphics, Inc.

SILICON GRAPHICS, INC.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

December 2, 2003

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The Annual Meeting of Stockholders of Silicon Graphics, Inc. will be held on Tuesday, December 2, 2003 at 2:00 p.m., local time, in the Ballroom of the Hyatt Richeys, 4219 El Camino Real, Palo Alto, California, for the following purposes:

1. To elect three Class II directors of the Company to serve for three-year terms.
2. To approve an increase in the number of shares reserved for issuance under the 1998 Employee Stock Purchase Plan.
3. To approve the issuance of up to _____ additional shares of common stock in connection with the Company's refinancing or repayment of its 5.25% Senior Convertible Notes due 2004.
4. To approve an amendment to the Company's certificate of incorporation to increase the number of authorized shares of common stock from 500,000,000 to 750,000,000.
5. To ratify the appointment of Ernst & Young LLP as independent auditors of the Company for the fiscal year ending June 25, 2004.
6. To consider any other business that may properly come before the meeting.

The Proxy Statement accompanying this Notice describes these matters more fully.

The close of business on October 8, 2003 is the record date for notice and voting.

We invite all stockholders to attend the meeting in person. Even if you plan to attend, please vote your shares as soon as possible. You may vote by telephone, on the Internet or by signing and returning the proxy card in the enclosed envelope.

Sincerely,

Sandra M. Escher
Senior Vice President, General Counsel and Secretary

Mountain View, California
October 27, 2003

SILICON GRAPHICS, INC.

PROXY STATEMENT

INFORMATION CONCERNING SOLICITATION AND VOTING

Your vote is very important. For this reason, our Board of Directors (the "Board") is requesting that you permit your shares or equivalent shares of common stock to be represented at our 2003 Annual Meeting of Stockholders by the proxies named on the enclosed proxy card. This proxy statement contains important information for you to consider when deciding how to vote on the matters brought before the meeting.

General Information

Silicon Graphics, Inc. is soliciting the enclosed proxy for use at the Annual Meeting of Stockholders to be held on December 2, 2003 at 2:00 p.m., local time, or at any adjournment thereof, for the purposes set forth in this proxy statement and in the accompanying Notice of Annual Meeting of Stockholders. The Annual Meeting will be held in the Ballroom of the Hyatt Richeys, 4219 El Camino Real, Palo Alto, California. The Company's principal offices are located at 1500 Crittenden Drive, Mountain View, California 94043-1351, and its telephone number at that

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location is 650-960-1980.

These proxy solicitation materials will be mailed on or about October 27, 2003 to all stockholders entitled to vote at the meeting.

Who May Vote at the Annual Meeting

You may vote your stock if our records show that you owned your shares on the record date, which is October 8, 2003. At September 30, 2003, there were issued and outstanding 210,764,252 shares of the Company's common stock, \$0.001 par value, and one share of the Company's Series E Preferred Stock, \$0.001 par value. Each share of common stock is entitled to one vote, and the outstanding share of the Company's Series E Preferred Stock is entitled to 36,183 votes.

The Company's Certificate of Incorporation provides for cumulative voting for the election of directors. Stockholders may allocate among one or more candidates the number of votes equal to the number of directors to be elected multiplied by the number of shares or equivalent shares of common stock held. However, no stockholder may cumulate votes unless prior to the voting the candidate's name has been placed in nomination in a timely manner in accordance with the Company's bylaws and a stockholder has given notice prior to the meeting of the intention to cumulate votes.

On all other matters, each share of common stock has one vote and the Series E Preferred Stock has 36,183 votes. Except as otherwise required by law, the Series E Preferred Stock votes with the common stock as one class.

Computershare Trust Company of Canada holds the Series E Preferred Stock as trustee under a voting trust for the benefit of holders of Exchangeable Shares issued in connection with the Company's acquisition of Alias Research Inc. in 1995. Each holder of Exchangeable Shares (other than the Company and its affiliates) will receive a proxy on which it can give Computershare Trust voting instructions for a number of Series E Preferred Stock votes equal to the number of Exchangeable Shares owned by that holder. Computershare Trust will only cast votes for which it receives instructions.

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Principal Share Ownership

As of September 30, 2003, the following persons were known by the Company to be the beneficial owners of more than 5% of any class of the Company's voting securities. This information is based on periodic SEC filings by stockholders and may not reflect current ownership.

	<u>Class of Securities</u>	<u>Number of Shares Beneficially Owned</u>	<u>Percent of Class</u>	<u>Percent of Total Voting Power(2)</u>
Highfields Capital Management(1) 200 Clarendon Street, 51st Floor Boston, MA 02117	Common Stock	20,195,503	9.58%	9.58%
Computershare Trust Company of Canada, as Trustee 100 University Avenue, 8th Floor Toronto, Ontario M5J 2N1	Series E Preferred Stock, \$0.001 par value	1	100.0%	*

*

Less than 1%.

(1)

As reported on a Schedule 13G/A dated February 14, 2003, these shares are beneficially owned by various entities and individuals affiliated with Highfields Capital Management. As an institutional investment manager, Highfields Capital Management also files periodic reports with the SEC on Form 13F disclosing certain investment holdings. In its filing for the quarter ended June 30, 2003, Highfields Capital Management reported holdings of 16,435,720 shares of the Company's common stock and \$67,558,000 principal

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amount of the Company's 5.25% Senior Convertible Notes. Highfields Capital and individuals affiliated with it share investment discretion with respect to the reported securities.

(2)

Each share of common stock is entitled to one vote, and the outstanding share of Series E Preferred Stock is entitled to 36,183 votes.

Cost of This Proxy Solicitation

The Company will pay the cost of soliciting proxies. The Company will pay Georgeson Shareholder Communications Inc., a proxy solicitation firm, a fee expected not to exceed \$ _____ for its services in the solicitation of proxies and will reimburse the firm for certain out-of-pocket expenses. The Company may also reimburse intermediaries for their expenses in forwarding solicitation materials to beneficial owners. The Company's directors, officers and employees may also solicit proxies, without additional compensation.

Voting Your Proxy

Whether you hold shares in your name or through a broker, bank or other nominee, you may vote without attending the meeting. You may vote by granting a proxy or, for shares held through a broker, bank or other nominee, by submitting voting instructions to that nominee. For shares held through a broker, bank or other nominee, follow the instructions on the voting instruction card included with your voting materials. If you provide specific voting instructions, your shares will be voted as you have instructed and as the proxy holders may determine within their discretion with respect to any other matters that properly come before the meeting.

If you hold shares in your name, and you sign and return a proxy card without giving specific voting instructions, your shares will be voted as recommended by our Board on all matters and as the proxy holders may determine in their discretion with respect to any other matters that properly come before the meeting. If you hold your shares through a broker, bank or other nominee and you do not provide instructions on how to vote, your broker or other nominee may have authority to vote your shares on certain matters. New York Stock Exchange ("NYSE") regulations prohibit brokers or other

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nominees that are NYSE member organizations from voting in favor of proposals relating to equity compensation plans and certain other matters unless they receive specific instructions from the beneficial owner of the shares to vote in that manner. NASD member brokers are also prohibited from voting on these types of proposals without specific instructions from beneficial holders. In the absence of controlling precedent to the contrary, the Company intends not to consider broker non-votes (that is, shares held by brokers or nominees who indicate on their proxies that they do not have discretionary authority to vote those shares as to a particular matter) in determining whether the requisite majority of votes cast has been obtained with respect to a particular matter.

Votes Needed to Hold the Meeting

The quorum required for the transaction of business at the Annual Meeting is a majority of the shares and equivalent shares of common stock outstanding on the record date. All shares voted, whether "For" or "Against" or abstentions, will count for purposes of establishing a quorum.

Internet or Telephone Voting

For Shares Directly Registered in the Name of the Stockholder. Stockholders with shares registered directly with Equiserve, the Company's transfer agent, may vote by telephone by calling 877-779-8683 or may vote on the Internet at the following address on the World Wide Web: <http://www.eproxyvote.com/sgi>.

For Shares Registered in the Name of a Brokerage Firm or Bank. A number of brokerage firms and banks are participating in a program for shares held in "street name" that offers telephone and Internet voting options. This program is different from the program provided by Equiserve for shares registered in the name of the stockholder. If your shares are held in an account at a brokerage firm or bank participating in this program, you may vote those shares by calling the telephone number referenced on your voting form. If your shares are held in an account at a brokerage firm or bank participating in the street name program, you already have been offered the opportunity to elect to vote using the Internet. Votes submitted via the Internet through the street name program must be received by 9:00 a.m. (Eastern Time) on December 1, 2003. Giving a proxy in this manner will not affect your right to vote in person should you decide to attend the Annual Meeting.

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The telephone and Internet voting procedures are designed to authenticate stockholders' identities, to allow stockholders to give their voting instructions and to confirm that stockholders' instructions have been recorded properly. The Company has been advised by counsel that the telephone and Internet voting procedures that have been made available through Equiserve and the street name program are consistent with the requirements of applicable law. Stockholders voting via the Internet through either of these programs should understand that there may be costs associated with electronic access, such as usage charges from Internet access providers and telephone companies, that must be borne by the stockholder.

Changing Your Vote

Any proxy given in response to this solicitation may be revoked by the person giving it at any time before its use by delivering to the Secretary of the Company at its principal offices a written notice of revocation or a duly executed proxy bearing a later date, or by attending the meeting and voting in person.

Deadline for Receipt of Stockholder Proposals for 2004 Annual Meeting

Proposals of stockholders intended to be presented at the Company's 2004 Annual Meeting must be received by the Company no later than June 25, 2004 in order to be included in the proxy materials for that meeting.

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PROPOSAL 1 ELECTION OF DIRECTORS

We have seven directors serving on our Board, divided into three classes serving staggered terms. James A. McDivitt, Arthur L. Money and Anthony R. Muller, who currently serve as members of the Board, are nominated for re-election to a three-year term expiring at the 2006 Annual Meeting. The Board has nominated these individuals for election to the Board at the recommendation of the Corporate Governance and Nominating Committee, which consists solely of independent directors as defined by the rules of the New York Stock Exchange. The current Class I directors' terms expire at the 2005 Annual Meeting, and the current Class III directors' terms expire at the 2004 Annual Meeting.

Directors and Nominees for Director

Unless otherwise instructed, the proxy holders will vote for the nominees named below. In the unexpected event that any nominee becomes unavailable or declines to serve, the proxy holders will vote the proxies in their discretion for any nominee designated by the Board to fill the vacancy. If additional persons are nominated, the proxy holders intend to cumulate their votes if necessary to elect the nominees listed below, and, in that event, the specific nominees to be voted for will be determined by the proxy holders.

<u>Name</u>	<u>Class</u>	<u>Age</u>	<u>Principal Occupation</u>	<u>Director Since</u>
<u>Nominees for Director</u>				
James A. McDivitt	II	74	Former Senior Vice President, Government Operations and International, Rockwell International Corporation	1987
Arthur L. Money	II	63	Former Assistant Secretary of Defense for Command, Control, Communications and Intelligence and Chief Information Officer, U.S. Department of Defense	2001
Anthony R. Muller	II	60	Former Executive Vice President and Chief Financial Officer of JDS Uniphase Corporation	2003
<u>Continuing Directors</u>				
Lewis S. Edelheit, Ph.D.	I	61	Former Senior Vice President, Corporate Research & Development, General Electric Company	2002
Charles A. Steinberg	I	69		2002

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Name	Class	Age	Principal Occupation	Director Since
Robert R. Bishop	III	60	Former President, Broadcast and Professional Company of Sony Electronics Inc. Chairman and Chief Executive Officer, Silicon Graphics, Inc.	1993
Robert M. White, Ph.D.	III	64	Director of Data Storage Systems Center and Professor at Carnegie Mellon University	2002
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Except as indicated below, each nominee or incumbent director has been engaged in the principal occupation set forth above during the past five years. There are no family relationships among directors or executive officers of the Company.

Mr. McDivitt was Senior Vice President, Government Operations and International, of Rockwell International Corporation until his retirement in March 1995. He currently serves as the Lead Director for the Company's Board.

Mr. Money served as the Assistant Secretary of Defense for Command, Control, Communication and Intelligence (C3I) from October 1999 to April 2001. Prior to his Senate confirmation in that role, he was the Senior Civilian Official, Office of the ASD (C31) from February 1998. Mr. Money also served as the Chief Information Officer for the Department of Defense from 1998 to 2001. From 1996 to 1998, he served as Assistant Secretary of the Air Force for Research, Development and Acquisition, and as CIO for the Air Force. Prior to his government service, Mr. Money held senior management positions with ESL Inc., a subsidiary of TRW, and the TRW Avionics and Surveillance Group, including the position of President of ESL between January 1990 and January 1996. He is also a director of CACI International, Rainbow Technologies, Inc., Terremark Worldwide, Inc., Essex Corporation and Intelli-Check.

Mr. Muller served as Executive Vice President and Chief Financial Officer of JDS Uniphase Corporation, a manufacturer of optical products for communications and industrial, commercial and consumer applications from May 2000 until his retirement in February 2003. Before that, he served as Senior Vice President and Chief Financial Officer of JDS Uniphase Corporation from January 1998 to May 2000. From September 1996 to January 1998, he served as Senior Vice President and Chief Financial Officer of Micro Focus Group Plc., a supplier of software tools. Mr. Muller also serves as a member of the board of directors of WebEx Communications and Time Warner Telecom Inc. Mr. Muller holds a B.A. degree from the University of Pennsylvania and an M.B.A. degree from Stanford University.

Mr. Bishop was appointed the Chairman of the Board and Chief Executive Officer of Silicon Graphics, Inc. in the fall of 1999. From 1996 to 1999, he was the non-executive Chairman of the Board of Silicon Graphics World Trade Corporation, and from 1986 to 1995 he was the President of Silicon Graphics World Trade Corporation.

Dr. Edelmet served as Senior Vice President of General Electric's corporate research and development from 1992 until his retirement in December 2001. He began his career at General Electric in 1969, where he helped pioneer major advances in computed tomography. Between 1986 and 1991, he left General Electric to become President and CEO of Quantum Medical Systems and remained its President after it was acquired by Siemens Corporation. He is a member of the National Academy of Engineering and the Industrial Research Institute, and a Fellow of the American Physical Society. He is also a director of Sonic Innovations, Inc. and Pacific Northwest National Laboratory, a non-public research laboratory.

Mr. Steinberg served as President of the Broadcast and Professional Company of Sony Electronics Inc. from March 1988 to June 1999. During that time period, he also served as Chairman and CEO of two Sony subsidiaries, Sony Trans Com Inc. and Sony Cinema Products Corporation. He currently is an executive advisor to Sony's Strategic Venture Investments Group and a consultant and advisory board member to other electronics companies and a venture capital company.

Dr. White currently serves as a director of the Data Storage Systems Center and Professor of Electrical and Computer Engineering at Carnegie Mellon University. He joined Carnegie Mellon University in 1993. Prior to that, he served as the first Undersecretary of Commerce for Technology under President George H. Bush and held senior management positions at Control Data Corporation

and Xerox's Palo Alto Research Center. He is also a director of STMicroelectronics N.V. and ENSCO, Inc., a private company.

About the Board and its Committees

The Board and its committees meet throughout the year on a regular schedule, and hold special meetings or act by written consent as needed. During fiscal 2003, the Board held eleven meetings, either in person or by telephone. Each regularly scheduled meeting of the Board includes a separate executive session for the non-management members of the Board. During fiscal 2003, the Board adopted corporate governance guidelines. These guidelines govern, among other things, Board member qualifications, responsibilities, compensation, education, management succession, committee composition and charters, as well as Board self-evaluation. As provided in these guidelines, the non-management members of the Board periodically designate a Lead Director. James A. McDivitt currently serves as the Lead Director. In this role, his duties include serving as chairman of the non-management directors' executive sessions, providing advice to the Chairman of the Board in planning meetings, and such other duties as the Board may delegate to assist in meeting its responsibilities.

The Board of Directors periodically reviews its standing committees, the committee charters, and the appointment of directors to serve on standing committees. In January 2003, the Board established a Corporate Governance and Nominating Committee in addition to its Audit Committee and Compensation and Human Resources Committee, adopted new written charters for each of these committees to reflect evolving corporate governance standards and recommendations, and appointed committee members and chairs. All members of these committees are independent directors as defined under the New York Stock Exchange rules.

Audit Committee. The members of the committee are Anthony R. Muller (chair), James A. McDivitt, and Charles A. Steinberg. The committee held eight meetings during fiscal 2003, either in person or by telephone. The Board has determined that Anthony R. Muller qualifies as an "audit committee financial expert" as that term is defined in the SEC regulations. Among other matters, the committee:

Hires and replaces the independent auditors as appropriate;

Evaluates the performance and independence of the independent auditors and pre-approves any non-audit services provided by the independent auditors;

Reviews and discusses with management, the internal auditors and the independent auditors the Company's financial statements and accounting principles; and

Oversees the internal auditing functions and controls.

Compensation and Human Resources Committee. The members of the committee are Charles A. Steinberg (chair), Lewis S. Edelheit and Anthony R. Muller. The committee held four meetings during fiscal 2003, either in person or by telephone. Among other matters, the committee:

Reviews and approves the Company's compensation and benefits policies, including incentive and equity compensation plans;

Reviews management performance and the Company's succession planning; and

Reviews and approves executive compensation policies, including compensation of the chief executive officer.

Prior to the establishment of the Corporate Governance and Nominating Committee in January 2003, the Compensation and Human Resources Committee also performed the functions of a nominating committee.

Corporate Governance and Nominating Committee. The members of the committee are James A. McDivitt (chair), Lewis S. Edelheit and Robert M. White. The Corporate Governance and Nominating Committee was established in January 2003 and held two meetings in fiscal 2003. Among other matters, the committee:

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Identifies individuals qualified to become Board members and recommends directors for appointment to Board committees;

Makes recommendations to the Board as to determinations of director independence;

Evaluates Board performance and oversees and sets compensation for the Company's directors; and

Oversees corporate governance policies and procedures.

Candidates for director suggested by stockholders will be considered by the Corporate Governance and Nominating Committee. Such suggestions should include the candidate's name and qualifications and may be submitted in writing to the Corporate Secretary, Silicon Graphics, Inc., 1500 Crittenden Road, Mountain View, CA 94043-1351.

Each director attended all meetings of the Board during fiscal 2003. All Committee members attended all meetings of the Committees of the Board on which he served during fiscal 2003, with two exceptions. Prior to the reappointment of Committee members in January 2003, all non-management directors served on the Compensation and Human Resources Committee, and C. Richard Kramlich (retired from the board in December 2002), James A. McDivitt, Charles A. Steinberg and Robert M. White served on the Audit Committee. Due to commitments made prior to joining the Board in August 2002, Dr. White was not able to attend the regularly scheduled meetings of the Audit Committee and the Compensation Committee held in October 2002, and also was not able to participate in the January 2003 Audit Committee conference call. Mr. Kramlich attended one of two Compensation Committee meetings and attended three of four Audit Committee meetings held during the portion of the fiscal year when he was a member.

Compensation Committee Interlocks and Insider Participation

The members of the Compensation and Human Resources Committee during portions of fiscal 2003 were C. Richard Kramlich, Dr. Edelheit, Mr. McDivitt, Mr. Money, Mr. Muller, Mr. Steinberg and Dr. White, all of whom are non-employee directors. Mr. Money received \$73,200 in fiscal 2003 in compensation under a consulting contract with the Company and its federal government sales subsidiary. Mr. Money, Mr. McDivitt and Dr. White also serve on the board of the Company's federal government sales subsidiary and receive fees of \$2,000 per meeting attended, except that Mr. Money receives a fee of \$3,000 per meeting attended as chairman of the subsidiary's board.

Director Compensation

Employee directors are not compensated for their service on the Board.

Each non-employee director receives a fee of \$6,000 per quarter and \$2,000 for each Board and committee meeting attended. The chair of each committee receives an additional \$1,000 for each committee meeting attended. The Lead Director receives an additional fee of \$3,000 per quarter.

Each non-employee director is granted an option to purchase 50,000 shares of common stock on the date on which he or she first becomes a director. These options become exercisable in installments on the first two anniversary dates following the date of grant, subject to accelerated vesting on a change in control. At the time of the regularly scheduled October meeting of the Board, each non-employee director who has served on the Board for at least six months also receives an option to purchase 20,000 shares of common stock which is fully exercisable on the date of grant. The exercise

price of the initial option grants and the annual option grants to directors is the fair market value at the time of grant. Options granted to non-employee directors expire after ten years, and can only be exercised while the optionee is a director, or within three months after service as a director terminates or within one year after a director's service terminates due to death, disability or retirement from the Board with more than 5 years service at age 65 or above.

Under the Silicon Graphics Non-Qualified Deferred Compensation Plan, non-employee directors may elect in advance to defer all or a portion of their cash compensation. Directors who participate in the deferral plan may direct the investment of the assets in their deferral accounts among a variety of mutual funds or may make an irrevocable election to credit the deferred fees to a stock credit account based on the

value of the Company's common stock. Directors may elect to receive payment of their deferred compensation in a lump sum or in annual installments not to exceed ten years, except in the case of amounts in the stock credit account, which are distributed in a lump sum based on the value of the Company's common stock at the time the director's service terminates.

Vote Required

Directors must be elected by a plurality of the votes cast at the Annual Meeting. This means that the three nominees receiving the highest number of votes will be elected. Abstentions will have no effect on the election of directors. If you hold your shares through a broker, bank or other nominee and you do not instruct them how to vote on this proposal, your broker may have authority to vote your shares. You may give each nominee one vote for each share you hold; or you may cumulate your votes by giving one candidate a number of votes equal to the number of directors to be elected which is three, multiplied by the number of shares or equivalent shares you hold; or you may distribute your votes among as many candidates as you wish. However, you may not cast votes for more than three nominees. No stockholder may cumulate votes unless prior to the voting the candidate's name has been placed in nomination in a timely manner in accordance with the Company's bylaws and a stockholder has given notice prior to the meeting of the intention to cumulate votes.

Recommendation

The Board recommends that you vote "FOR" each of the nominees to the Board set forth in this Proposal 1.

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PROPOSAL 2 AMENDMENT TO INCREASE THE NUMBER OF SHARES AVAILABLE UNDER THE EMPLOYEE STOCK PURCHASE PLAN

We are asking you to approve an amendment to our 1998 Employee Stock Purchase Plan (the "ESPP") to increase the number of shares of common stock available for issuance under the ESPP by 12,000,000 shares. Currently, there are fewer than 1,000 shares remaining for issuance under the ESPP. In April 2003, the Board suspended purchases under the ESPP because the available shares had been substantially exhausted. The proposed amendment was adopted by the Board in July 2003 and will become effective on stockholder approval.

Summary of Terms of the ESPP

The following is a summary of the principal features of the ESPP, as amended by the Board through July 2003. This summary, however, does not purport to be a complete description of all of the provisions of the ESPP.

Overview. The ESPP was initially approved by the Board in July 1998 and by our stockholders in October 1998. The ESPP is intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code. It provides each of our eligible employees with an opportunity to purchase shares of common stock through accumulated payroll deductions in each purchase period in which he or she participates.

Offering Periods and Purchase Dates. Shares of common stock are offered under the ESPP through a series of 12-month offering periods. Each offering period consists of two purchase periods. When an eligible employee elects to join an offering period, he or she is granted a purchase right to acquire shares of common stock on the last day of each 6-month purchase period during the offering period. On the purchase date, all payroll deductions collected from the participant are automatically applied to the purchase of common stock, subject to certain limitations. We expect that, if this proposal is approved by stockholders, the Board will implement the amended ESPP by starting the next 12-month offering period in February 2004.

The price paid for the purchase of stock is 85% of the lower of (a) the fair market value of our common stock at the beginning of the offering period or (b) the fair market value of our common stock on the purchase date. As of October 16, 2003, the closing price of our common stock as reported on the New York Stock Exchange was \$1.21.

Participants in the ESPP generally may not accrue rights to purchase stock under all employee stock purchase plans (as described in Section 423 of the Internal Revenue Code) of the Company and its subsidiaries at a rate exceeding \$25,000 (based on the fair market value of the stock at the beginning of the applicable offering period) for each calendar year in which the purchase right is outstanding. In addition, an employee will not be permitted to purchase during an offering period a number of shares in excess of the number determined by dividing \$40,000 by the fair market value of a share of the Company's common stock on the first day of an the applicable offering period or such other limit as may be imposed by the Internal Revenue Code.

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Eligibility and Participation. All persons who are employed by the Company or designated subsidiaries on a given enrollment date, including officers and employee directors, and who are customarily employed by the Company for at least 20 hours per week and more than 5 months per calendar year are eligible to participate in the ESPP. Participation ends automatically on termination of employment. An eligible employee may become a participant by completing a subscription agreement authorizing payroll deductions and filing it with the Company's payroll office prior to the applicable enrollment date. Payroll deductions are limited to 10% of each employee's compensation.

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Approximately 3,210 employees, including officers and employee directors, are eligible to participate in the ESPP. No employee can participate in the ESPP if after entering the offering period, he or she would be deemed to own stock of the Company possessing more than five percent of the total combined voting power of all of the Company's outstanding stock.

Administration and Amendment of the Plan. The ESPP is administered by the Board or by a committee appointed by the Board. Currently, the Compensation and Human Resources Committee administers the ESPP. The Board may at any time and for any reason terminate or amend the ESPP. Except as provided in the ESPP, no termination can affect options previously granted, nor may any amendment make any change in any option already granted which adversely affects the rights of any participant, except that the amendments may be made to prevent unfavorable accounting consequences. Stockholder approval may be required for certain amendments in order to comply with the federal securities or tax laws, or any other applicable law or regulation. Unless terminated sooner, the ESPP will terminate 20 years after its initial adoption date in 1998.

Federal Income Tax Consequences

The following summary is intended only as a general guide to the material U.S. federal income tax consequences of the ESPP and does not attempt to describe all possible federal or other tax consequences of particular or unique circumstances. State, local and foreign tax treatment, which is also not described below, may vary from the U.S. federal income tax treatment. All eligible employees are advised to consult their own tax advisors concerning the tax implications of participating in the ESPP and of selling stock acquired under the ESPP.

No tax consequences will arise for participants until the sale or other disposition of stock acquired under the ESPP.

The tax consequences of a disposition of shares acquired under the ESPP vary depending on the period of time such stock is held before its disposition. If a participant disposes of shares within two years after the beginning of the offering period in which the shares are acquired or within one year after the purchase date on which the shares are acquired (a "disqualifying disposition"), the participant recognizes ordinary income in the year of disposition in an amount equal to the difference between the fair market value of the shares on the purchase date and the purchase price. Any additional gain or resulting loss recognized by the participant from the disposition of the shares will receive capital gain or loss treatment.

If the participant disposes of shares more than two years after his or her entry date into the offering period in which the shares are acquired and more than one year after the purchase date on which the shares are acquired, the participant recognizes ordinary income in the year of disposition in an amount equal to the lesser of (a) the amount by which the fair market value of the shares on the date of disposition exceeded the purchase price and (b) the amount by which the fair market value of the shares on the first date of the offering period exceeded the purchase price. Any additional gain recognized by the participant on the disposition of the shares is a capital gain. If the fair market value of the shares on the date of disposition is less than the purchase price, there is no ordinary income, and the loss recognized is a capital loss.

A capital gain or loss will be long-term if the participant holds the shares for more than 12 months and short-term if the participant holds the shares for 12 months or less.

If the participant disposes of the shares in a disqualifying disposition, the Company should be entitled to a deduction equal to the amount of ordinary income recognized by the participant as a result of the disposition, except to the extent such deduction is limited by applicable provisions of the Internal Revenue Code or the regulations thereunder. In all other cases, no deduction is allowed by the Company.

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New Plan Benefits

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Participation in the ESPP is voluntary and is dependent on each eligible employee's election to participate and his or her determination as to the level of payroll deductions. Accordingly, future purchases under the ESPP are not determinable. For fiscal 2003, executive officers as a group purchased 23,699 shares under the ESPP, and non-executive employees as a group purchased 1,984,712 shares under the ESPP. None of the executive officers named in the table under "Executive Officer Compensation" below participated in the ESPP during fiscal 2003, except for Mr. Robbins, who purchased 9,161 shares. Non-employee directors are not eligible to participate in the ESPP.

Vote Required

Approval of this proposal requires a number of votes "FOR" the proposal that represents a majority of the votes cast. Abstentions will have the same effect as a negative vote on this matter, while broker non-votes will have no effect on the outcome of the vote.

Recommendation

The Board recommends voting "FOR" the approval of an increase in the shares available under the Employee Stock Purchase Plan.

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PROPOSAL 3 ISSUANCE OF ADDITIONAL SHARES OF COMMON STOCK IN CONNECTION WITH THE COMPANY'S REFINANCING OR REPAYMENT OF ITS SENIOR CONVERTIBLE NOTES DUE 2004

The Board is seeking shareholder approval for the issuance from time to time of up to _____ shares of our common stock in order to refinance or repay the \$230 million outstanding principal amount of our 5.25% Senior Convertible Notes due September 1, 2004, which we refer to as the "Old Notes". These shares may be reserved for issuance upon the conversion of new convertible securities issued in exchange for the Old Notes, sold for cash, or otherwise issued in connection with one or more transactions that have as their primary purpose the repayment or refinancing of the debt represented by the Old Notes.

Although we believe that we have sufficient authorized but unissued shares under our Certificate of Incorporation to complete a refinancing or repayment of the Old Notes, we are seeking approval for this proposed issuance to comply with the rules of the New York Stock Exchange. The New York Stock Exchange rules require listed companies to obtain shareholder approval for the issuance of common stock, or securities convertible into or exercisable for common stock, equal to 20% or more of the outstanding common stock or 20% or more of the voting power outstanding before the issuance.

Purpose of the Repayment or Refinancing of the Old Notes; Consequences of Failure to Refinance the Old Notes

We are required to refinance the Old Notes because we do not currently believe that we will be able to generate sufficient cash to repay the approximately \$231 million principal amount of Old Notes in full at maturity on September 1, 2004. Our unrestricted cash, cash equivalents and marketable investments were approximately \$141 million at June 27, 2003. Our goal is to achieve a restructuring in which a substantial majority of the Old Notes are exchanged for notes with a later maturity date to provide time to return our business to profitability and positive cash flow. If we fail to repay or refinance the Old Notes by March 5, 2004 on terms satisfactory to the lender under our secured credit facility, the maturity of this facility will accelerate to June 2004.

The Company launched an exchange offer in May 2003 and revised the terms in July 2003, but it withdrew that exchange offer because it failed to receive the required 85% support of the holders of the Old Notes. The Company is continuing its discussions with the principal holders of the Old Notes to structure the terms of a refinancing of the Old Notes that will be attractive to a substantial majority of the holders of the Old Notes. The Company anticipates that the enhanced terms of such a refinancing would include an interest rate substantially higher than that of the Old Notes and a conversion price commensurate with the Company's current stock price range of approximately \$1.20 per share. If we are unable to effect such an exchange on acceptable terms, or if following the exchange there remains a balance of Old Notes that must be refinanced, some or all of the shares authorized by this proposal could be sold for cash, reserved for issuance in connection with other convertible securities or otherwise issued for the primary purpose of repaying or refinancing the Old Notes.

Principal Effects of Issuance of Additional Shares of Common Stock on Currently Outstanding Common Stock

Upon completion of the repayment or refinancing of the Old Notes, and assuming that the shares reserved in connection with such repayment or refinancing are ultimately issued, the equity interests of our current shareholders will be significantly diluted.

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The following table presents certain information regarding our equity capitalization as of September 30, 2003 on an actual basis and on a pro forma basis to reflect the consummation of a

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refinancing of the Old Notes (without giving effect to the proposed changes in the number of authorized shares under Proposal 4).

Common Stock	As of September 30, 2003			
	Actual		Pro Forma(1)	
	Shares	Percent of Outstanding (Fully Diluted Basis)	Shares	Percent of Outstanding (Fully Diluted Basis)
Shares authorized	500,000,000		500,000,000	
Shares outstanding	210,764,252	73.87%	210,764,252	%
Shares reserved for issuance under Old Notes	12,331,070	4.32%		
Shares reserved for issuance under refinancing terms				%
Shares reserved for issuance under convertible subordinated debentures due February 2011	1,242,762	0.44%	1,242,762	%
Shares reserved for issuance under employee stock plans	60,968,933	21.37%	72,968,933	%
Total outstanding and reserved	285,307,017			

(1) Assumes exchange of all currently outstanding 5.25% Senior Convertible Notes due 2004 for the shares sought to be approved under this proposal and stockholder approval of the increase in the number of shares available for issuance under our Employee Stock Purchase Plan.

Vote Required

Approval of this proposal requires a number of votes "FOR" the proposal that represents a majority of the votes cast. Abstentions will have the same effect as a negative vote on this matter, while broker non-votes will have no effect on the outcome of the vote.

Recommendation of the Board

The Board recommends voting "FOR" the approval of the issuance of up to _____ shares of common stock issuable in connection with the repayment or refinancing of our Old Notes.

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PROPOSAL 4
PROPOSAL TO AMEND OUR CERTIFICATE OF INCORPORATION TO INCREASE THE
NUMBER OF AUTHORIZED SHARES OF COMMON STOCK FROM 500,000,000 TO
750,000,000 SHARES

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The Board has unanimously adopted a resolution approving, and recommending to the Company's stockholders for their approval, a proposal to amend the Company's certificate of incorporation to increase the number of authorized shares of common stock from 500,000,000 to 750,000,000. In addition, to effect this change, the total number of shares, which includes 2,000,000 authorized shares of preferred stock, would be increased from 502,000,000 to 752,000,000. The text of the proposed amendments would be substantially in the form attached to this Proxy Statement as Attachment A.

Reasons for Proposal

The Board is recommending this increase in authorized shares primarily in light of the number of shares expected to be reserved for issuance upon conversion of the New Convertible Notes. The Board believes that this increase in the number of authorized but unissued shares will give the Company appropriate flexibility to issue shares for such purposes as raising capital and effecting acquisitions and to reserve shares for use in employee incentive programs. These shares may be issued by the Board in its discretion, subject to any further shareholder action required under stock exchange or other rules in the case of any particular issuance. Any future issuance will have the effect of diluting the percentage of stock ownership and voting rights of the present holders of common stock.

The Board is aware that an increase in the number of authorized but unissued shares of common stock may have a potential anti-takeover effect. This proposal is not being recommended by the Board as part of an anti-takeover strategy.

Effect on Outstanding Common Stock

The proposed amendment to our certificate of incorporation would not affect the rights of existing holders of common stock except to the extent that future issuances of common stock will reduce each existing stockholder's proportionate ownership.

Vote Required

Approval of this proposal requires a number of votes "FOR" the proposal that represents a majority of the outstanding shares entitled to vote. Abstentions will have the same effect as a negative vote on this matter, while broker non-votes will have no effect on the outcome of the vote.

Recommendation of the Board

The Board recommends voting "FOR" the amendment to the Company's certificate of incorporation to increase the number of authorized shares.

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PROPOSAL 5 RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

The Audit Committee has appointed Ernst & Young LLP, independent auditors, to audit the consolidated financial statements of the Company for the fiscal year ending June 25, 2004. We are asking the stockholders to ratify this appointment. In the event of a majority vote against ratification, the Audit Committee may reconsider its selection, and in any event is entitled to change auditors at a later date. Ernst & Young LLP has audited the Company's financial statements since the company was formed in fiscal 1982. Representatives of Ernst & Young LLP are expected to be present at the meeting with the opportunity to make a statement, and to be available to respond to appropriate questions.

Fees Paid to the Independent Auditors

During fiscal 2003 and fiscal 2002, the aggregate fees billed by Ernst & Young LLP for professional services were as follows:

	Fiscal 2003	Fiscal 2002
Audit Fees:(1)	\$	\$
Audit-Related Fees:		
Tax Fees:		
All Other Fees:		

	Fiscal 2003	Fiscal 2002
	_____	_____
	_____	_____
Total	\$	\$
	_____	_____

- (1) Represents fees for professional services rendered in connection with the audit of the annual financial statements and for the review of the quarterly financial statements.

The Audit Committee has determined that the provision by Ernst & Young LLP of non-audit services is compatible with maintaining the independence of Ernst & Young LLP. In accordance with its charter, the Audit Committee approves in advance all audit and non-audit services to be provided by Ernst & Young LLP. In certain cases, the Audit Committee may delegate authority to pre-approve non-audit services on a preliminary basis to one or more members of the Audit Committee, provided that such pre-approvals are communicated to the full Committee at its next meeting. During fiscal 2003, all services were pre-approved by the Audit Committee in accordance with this policy.

Recommendation

The Board recommends voting "FOR" the ratification of the appointment of Ernst & Young LLP as the Company's independent auditors for fiscal 2004.

OTHER INFORMATION

Security Ownership of Management

The following table sets forth the beneficial ownership of SGI's common stock as of September 30, 2003 by each director or nominee director, by each of the current executive officers named in the table under "Executive Officer Compensation" below, and by all such persons and all current executive officers as a group:

Name	Number of Shares Beneficially Owned(1)	Percent of Common Stock	Percent of Total Voting Power
_____	_____	_____	_____
Robert R. Bishop	6,298,544	2.96%	2.96%
Lewis S. Edelheit	25,000	*	*
James A. McDivitt	245,004	*	*
Arthur L. Money	71,000	*	*
Anthony R. Muller	5,000	*	*
Charles A. Steinberg	55,000	*	*
Robert M. White	25,000	*	*
Warren Pratt	882,011	*	*
Anthony K. Robbins	1,000,245	*	*
Jeffrey V. Zellmer	376,703	*	*
Sandra M. Escher	461,353	*	*
All executive officers and directors as a group (16 persons)	10,772,905	4.06%	4.96%

*
Less than 1%.

(1)

Unless otherwise indicated, the persons named have sole voting and investment power over the shares shown as being beneficially owned by them, subject to community property laws, where applicable. The table includes the following shares issuable on exercise of options that were exercisable on September 30, 2003, or within 60 days thereafter: Mr. Bishop, 2,127,500 shares; Dr. Edelheit, 25,000 shares; Mr. McDivitt, 80,000 shares; Mr. Money, 70,000 shares; Mr. Steinberg, 45,000 shares; Dr. White, 25,000 shares; Dr. Pratt, 852,585 shares; Mr. Robbins, 963,217 shares; Mr. Zellmer, 356,947 shares; Ms. Escher, 455,500 shares; and all directors and executive officers as a group, 6,275,929 shares.

**REPORT OF THE COMPENSATION
AND HUMAN RESOURCES COMMITTEE
OF THE BOARD OF DIRECTORS**

The following Report of the Compensation and Human Resources Committee of the Board shall not be deemed to be "soliciting material" or to be "filed" with the SEC nor shall this information be incorporated by reference into any future filing under the Securities Act of 1933 (the "Securities Act") or the Securities Exchange Act of 1934 (the "Exchange Act"), each as amended, except to the extent that SGI specifically incorporates it by reference into such filing.

The Compensation and Human Resources Committee of the Board of Directors reviews and approves executive compensation policies, including compensation of the Chief Executive Officer. The Committee administers SGI's stock incentive plans, approves stock option grants for employees, and reviews management performance and the Company's succession planning. The Committee is currently composed of three independent directors, as defined by the listing standards of the New York Stock Exchange.

Compensation Philosophy

SGI operates in the highly competitive and rapidly changing high technology industry. The Committee seeks to establish compensation policies that allow SGI flexibility to respond to changes in its business environment. The goals of SGI's compensation program are to align compensation with SGI's overall business objectives and performance, to foster teamwork and to enable SGI to attract, retain and reward employees who contribute to its long-term success.

Executive Compensation Components

Compensation for SGI's executive officers generally consists of base salary and annual incentive plans, combined with stock option awards. The Committee assesses the past performance and anticipated future contribution of each executive officer in establishing the total amount and mix of each element of compensation.

Salary. The salaries of the executive officers, including the Chief Executive Officer, are determined by the Committee with reference to several surveys of salaries paid to executives with similar responsibilities at comparable companies, primarily in the high technology industry. The peer group for each executive officer is composed of executives whose responsibilities are similar in scope and content. SGI seeks to set executive compensation levels that are competitive with the average levels of peer group compensation. During fiscal 2003, there were no salary increases for executive officers.

Annual Incentive. The Committee annually reviews and approves an executive incentive plan. During fiscal 2003, all executive officers were eligible for target bonuses based on a percentage of their base salary, depending on their positions. The bonus, if awarded, is computed as a percentage of that target based on SGI's performance in achieving specified objectives. For fiscal 2003, these objectives included the achievement by SGI of certain quarterly revenue and EBITDA goals. No payments were made in fiscal 2003 under this plan.

Deferred Compensation Plan. The Non-Qualified Deferred Compensation Plan is a voluntary, non-tax qualified plan available to certain members of management and non-employee directors. Participants in the plan may elect in advance to defer all or a portion of their cash compensation.

Stock Options and Restricted Stock Awards. Stock options and restricted stock awards are designed to align the interests of executives with the long-term interests of the stockholders. The Committee approves option grants subject to vesting periods to retain executives and encourage sustained

contributions. The exercise price of most options is the market price on the date of grant. Restricted stock awards are also subject to vesting, based generally on the passage of time. No restricted stock awards were granted to executive officers in fiscal 2003.

Compensation of the Chief Executive Officer. Robert R. Bishop joined the company in the fall of 1999 as Chairman and Chief Executive Officer at an initial annual base salary of \$800,000. Over the four years he has been in this role, his salary has remained unchanged. The Committee set Mr. Bishop's target for participation in the fiscal 2003 executive incentive program at 185% of his base salary, such that his bonus, had it been awarded would have comprised the majority of his total potential annual compensation. Mr. Bishop, who owns about 2% of the Company's outstanding common stock, did not receive a stock option grant in fiscal 2003. No bonus was paid in fiscal 2003, and Mr. Bishop has deferred all of his cash compensation for fiscal 2001, 2002 and 2003.

Section 162(m)

SGI is subject to Section 162(m) of the U.S. Internal Revenue Code, which limits the deductibility of certain compensation payments to its executive officers. SGI does not have a policy requiring the Committee to qualify all compensation for deductibility under this provision. The Committee's current view is that any non-deductible amounts will be immaterial to SGI's financial or tax position, and that SGI derives substantial benefits from the flexibility provided by the current system, in which the selection and quantification of performance targets are modified from year to year to reflect changing conditions. However, the Committee considers the net cost to SGI in making all compensation decisions and will continue to evaluate the impact of this provision on its compensation programs.

COMPENSATION AND HUMAN RESOURCES COMMITTEE

Charles A. Steinberg, *Chairman*

Lewis S. Edelheit

Anthony R. Muller

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REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The following Report of the Audit Committee of the Board shall not be deemed to be "soliciting material" or to be "filed" with the SEC nor shall this information be incorporated by reference into any future filing under the Securities Act or the Exchange Act, except to the extent that SGI specifically incorporates it by reference into such filing.

The management of the Company is responsible for establishing and maintaining internal controls and for preparing the Company's consolidated financial statements. The independent auditors are responsible for auditing the financial statements. It is the responsibility of the Audit Committee of the Board to oversee these activities and otherwise to fulfill the responsibilities outlined in its charter. These responsibilities also include hiring and replacing the independent auditors and evaluating the performance and independence of the independent auditors.

The Board has adopted a written charter for the Audit Committee. This charter was amended during fiscal 2003 in response to new regulatory requirements including the Sarbanes-Oxley Act of 2002 and related rules and regulations proposed or issued by the SEC and the NYSE. Each member of the Audit Committee is independent as defined under the listing standards of the New York Stock Exchange.

The Audit Committee has reviewed and discussed with management the audited financial statements for the fiscal year ended June 27, 2003, including a discussion of significant judgments and accounting principles.

The Audit Committee has discussed with Ernst & Young LLP, the Company's independent auditors, the matters required to be discussed by Statement on Auditing Standards No. 61, which includes, among other items, matters related to the conduct of the audit of the Company's financial statements.

The Audit Committee has received and reviewed the written disclosures and the letter from the independent auditors required by the Independence Standards Board Standard No. 1, which relates to the auditors' independence from the Company.

The Committee discussed with the Company's internal and independent auditors the overall scope and plans for their respective audits. The Committee meets with the internal and independent auditors, with and without management present, to discuss the results of their examinations,

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their evaluations of the Company's internal controls, and the overall quality of the Company's financial reporting.

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors and the Board approved that the audited financial statements be included in the Company's annual report on Form 10-K filed with the SEC, for the fiscal year ended June 27, 2003.

AUDIT COMMITTEE

Anthony R. Muller, *Chairman*

James A. McDivitt

Charles A. Steinberg

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EXECUTIVE OFFICER COMPENSATION

Summary Compensation Table

The following table sets forth the cash and equity compensation for the three fiscal years ended June 27, 2003 for Robert R. Bishop, Chief Executive Officer, and each of the four other most highly compensated executive officers of SGI (determined at the end of fiscal 2003).

Name and Principal Position	Fiscal Year	Annual Compensation			Long Term Compensation Awards	
		Salary(\$)	Bonus (\$)(1)	Other Annual Compensation (\$)	Options(#)	Restricted Stock(\$)
Robert R. Bishop(2) Chairman and Chief Executive Officer	2003	\$ 800,000		\$ 9,116(3)		
	2002	800,000	\$ 370,000	7,528(3)	750,000	
	2001	800,000		7,566(3)	2,000,000	
Warren C. Pratt Chief Operating Officer and Executive Vice President	2003	\$ 450,000		\$ 313,561(4)		
	2002	480,031	\$ 116,800	276,233(4)	400,000	
	2001	458,615		211,879(4)	100,000	
Anthony K. Robbins Senior Vice President, Silicon Graphics, Inc., and President, Silicon Graphics Federal, Inc.	2003	\$ 357,200	\$ 98,231	\$ 3,617(5)		250,000
	2002	356,528	283,504	3,862(5)		300,000
	2001	317,204	119,102	6,200(5)		300,000
Jeffrey V. Zellmer Senior Vice President and Chief Financial Officer	2003	\$ 325,000		\$ 257,335(6)		225,000
	2002	322,007	\$ 190,625	193,947(6)		200,000
	2001	242,380	32,500	15,720(6)	70,000	\$ 35,492(7)
Sandra M. Escher Senior Vice President and General Counsel	2003	\$ 305,000		\$ 145,265(8)		160,000
	2002	303,577	\$ 185,275	109,311(8)		150,000
	2001	217,147	16,667	4,453(8)		100,000

- (1) The bonus column for Mr. Robbins includes commissions paid.
- (2) Mr. Bishop elected to defer his salary and bonus for each of the fiscal years shown above.
- (3) Consists of life insurance premiums paid by the Company, except that fiscal 2001 also includes \$4,596 of reimbursement for taxes.
- (4)

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Includes loan forgiveness, income on imputed interest and amounts reimbursed by the Company for payment of taxes in connection with the loans described in "Certain Transactions" in the amounts of \$270,927, \$238,490 and \$147,706 for fiscal 2003, 2002 and 2001, respectively. Also includes tax equalization payments as described under "Certain Transactions," relocation assistance, executive perquisites, matching 401(k) contributions and life insurance premiums paid by the Company.

- (5) Consists of life insurance premiums paid by the Company, matching 401(k) contributions, executive perquisites, and reimbursement for taxes.
- (6) Includes loan forgiveness, income on imputed interest and amounts reimbursed by the Company for payment of taxes in connection with the loans described in "Certain Transactions" in the amounts of \$255,609 and \$192,227 for fiscal 2003 and 2002, respectively. Remaining amounts consist of matching 401(k) contributions and life insurance premiums paid by the Company.
- (7) Mr. Zellmer's restricted stock award of 8,000 shares granted in August 2000 fully vested on August 8, 2001.
- (8) Includes loan forgiveness, income on imputed interest and amounts reimbursed by the Company for payment of taxes in connection with the loans described in "Certain Transactions" in the amounts of \$143,575 and \$107,647 for fiscal 2003 and 2002, respectively. Remaining amounts consist of matching 401(k) contributions and life insurance premiums paid by the Company.

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Option Grants in Fiscal 2003

The following table provides details regarding all stock options granted to the executive officers named in the Summary Compensation Table in fiscal 2003.

Name	Individual Grants(1)				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(2)	
	Number of Securities Underlying Options Granted	% of Total Options Granted to Employees in Fiscal Year	Exercise Price (\$/Share)	Expiration Date	5%	10%
Robert R. Bishop			N/A	N/A		
Warren C. Pratt			N/A	N/A		
Jeffrey V. Zellmer	225,000	2.28%	\$ 1.45	7/31/12	\$ 205,177	